

FDIC State Profile

Fall 2005

Virginia

Despite moderating in early 2005, Virginia remains among the fastest growing states.

- During the first half of 2005, job growth dipped below the nation for the first time since fourth quarter 2002. In second quarter 2005, year-over-year job growth in the state stood at 1.5 percent, below the national average and one full percentage point below the previous quarter (see Chart 1). The state's labor markets have loosened just slightly, but jobless rates are still well below the national average. Nonetheless, employment in the state remains above its pre-recession peak (see Chart 2).
- Performance varies across the state, with Northern Virginia remaining the state's economic engine. In second quarter 2005, **Harrisonburg** and **Richmond** were fast-growing areas, with employment up slightly more than 2 percent from a year earlier. The **Washington, D.C.** metro area continued to expand at a fast clip, with job growth of more than 3 percent. **Danville** continued to shed jobs, primarily in its textile and apparel sector. Mill employment has fallen 15 percent in the past year.
- Recent hurricanes likely will have indirect implications leading to higher energy costs, supply and distribution disruptions, and the temporary or permanent absorption of residents dislocated by the storm.

Residential construction has played an important role.

- Despite accounting for just under 5 percent of total employment, homebuilding has played an outsized role in Virginia's economic recovery. Between the end of 2001 and 2004, residential construction-related employment accounted for more than one-quarter, or 24,900 jobs, of the 89,900 net gain in private employment.¹ Indirectly, the industry's importance has been further amplified by the ripple effect it has caused in other sectors.
- Homebuilding rose through the first half of 2005, with permit issuance reaching record levels. Increases in home prices easily surpassed the national gain of 14.6 percent. Although some markets have reported rising inventories,

¹Residential construction-related employment includes residential construction and specialty contractors; mortgage lenders and brokers; and residential real estate agents, property managers, and appraisers.

Chart 1: Virginia's Employment Growth Has Weakened

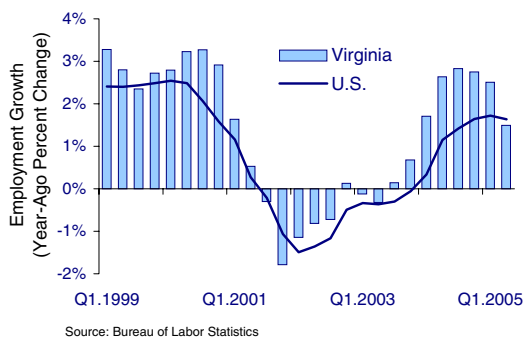


Chart 2: Employment in Virginia Is Well Above Pre-Recession Levels

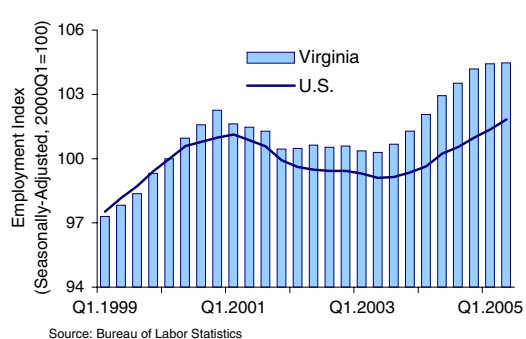
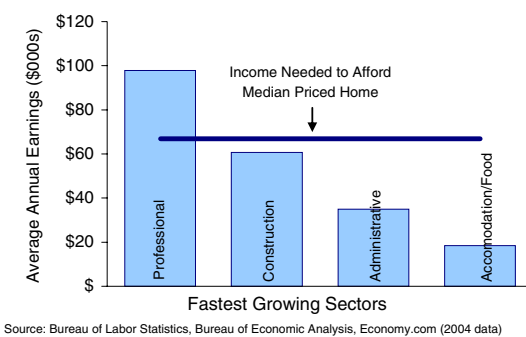


Chart 3: Low Incomes in Some of Virginia's Fastest Growing Sectors May Constrain Affordability



northern and eastern portions of the state continued to see the highest levels of home price appreciation. In contrast, gains along the southern border remained comparatively weak.

- Affordability has become an increasingly important issue in Virginia. Average earnings in some of the fastest growing sectors of Virginia's economy were below the income level needed to purchase a median priced home on conventional terms in 2004 (see Chart 3).
- According to the Office of Federal Housing Enterprise Oversight, home prices appreciated 20.9 percent for the 12 months ending June 30, 2005. Rapid appreciation also may have disrupted the traditional relationship between home prices and apartment rents. Rents in the greater Washington area, while seeing marginal gains, remain below pre-recession levels and have failed to keep pace with home price appreciation (see Chart 4).

Small business performance measures vary.

- The net number of small businesses in Virginia grew 3.6 percent in 2004.² The booming residential real estate market is influencing the growth of some small businesses. For example, landscaping and lawn service firms in the state, which have an average of nine employees, increased jobs by 10.2 percent in 2004, much higher than the 2.6 percent increase in overall private payroll jobs.
- Overall business lending at community banks in Virginia has fallen over the past two years.³ Small business loans declined by 4 percent from a year ago, which contrasts with the 3.7 percent national growth rate for all commercial banks. Moreover, small business loans have fallen over the past four consecutive annual periods. The share of small business loans as a percentage of all business loans stabilized this year after declining during the first part of the decade (see Chart 5).

Community banks continue their solid performance.

- Overall, banking conditions at Virginia community banks were solid. Profitability was sound as return on assets rose slightly over the 12-month period to 1.11 percent. Despite an increase in funding costs, net interest margins improved because of strong loan growth. After relatively flat performance the past few years, margins rose to 4.11 percent in second quarter 2005, up from 4.04 percent two years prior.

A shift in new deposit funding may lead to higher costs.

- Virginia community banks may experience higher funding costs as the mix of new deposits is shifting to higher cost time deposits (see Chart 6). Depositors are moving into higher yielding products as the differential between holding money in lower yielding, but more liquid, transaction or money market deposit accounts has widened with the recent increase in short-term interest rates. The change in preference by depositors has contributed to the rise in the cost of deposits to 2.12 percent for the 12 months ending June 30, 2005, from 1.89 percent a year ago.

Chart 4: Washington Area Apartment Rents Have Not Kept Pace with Home Price Appreciation

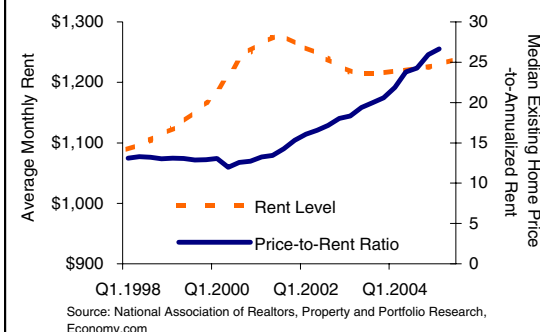


Chart 5: The Share of Small Business Loans Has Fallen at Virginia Community Banks

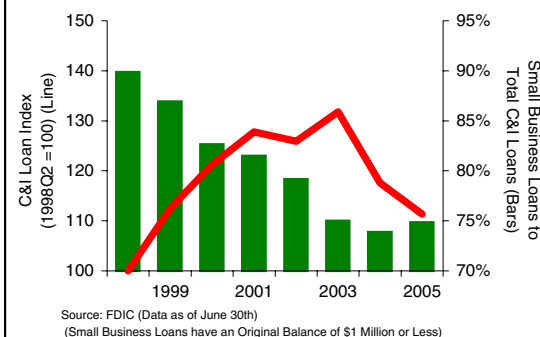
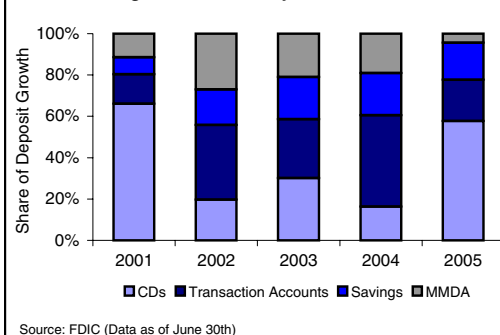


Chart 6: New Deposit Funding Mix May Lead to Higher Costs at Virginia Community Banks



²"Small Business Profile: Virginia," U.S. Small Business Administration, Office of Advocacy, 2004 and 2005.

³Community banks are insured commercial banks with assets of \$1 billion or less.

Virginia at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.5%	2.5%	2.6%	2.5%	0.1%
Manufacturing (8%)	-0.2%	0.2%	-2.4%	-1.9%	-4.7%
Other (non-manufacturing) Goods-Producing (7%)	3.6%	5.8%	6.6%	5.9%	1.2%
Private Service-Producing (67%)	1.7%	2.8%	3.0%	2.8%	0.6%
Government (18%)	0.7%	1.5%	2.1%	2.2%	0.4%
Unemployment Rate (% of labor force)	3.6	3.3	3.7	3.7	4.1

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	7.8%	8.2%	9.6%	7.8%	4.2%
Single-Family Home Permits	15.6%	-2.6%	-2.0%	2.3%	2.4%
Multifamily Building Permits	-42.4%	-34.7%	66.8%	34.0%	-19.9%
Existing Home Sales	2.7%	7.1%	15.9%	17.5%	5.5%
Home Price Index	20.9%	19.1%	13.2%	15.2%	8.1%
Bankruptcy Filings per 1000 people (quarterly annualized level)	5.37	5.24	5.64	5.43	6.07

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	140	141	141	140	141
Total Assets (in millions)	250,478	237,489	199,998	221,220	181,595
New Institutions (# < 3 years)	12	12	12	12	8
Subchapter S Institutions	1	1	1	1	0

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.93	1.12	1.18	1.00	1.52
ALLL/Total Loans (median %)	1.14	1.14	1.19	1.16	1.21
ALLL/Noncurrent Loans (median multiple)	3.22	3.23	3.05	2.78	2.36
Net Loan Losses / Total Loans (median %)	0.02	0.04	0.03	0.07	0.11

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	8.84	8.88	8.61	8.73	8.50
Return on Assets (median %)	1.09	1.05	1.04	1.03	1.07
Pretax Return on Assets (median %)	1.52	1.46	1.48	1.46	1.52
Net Interest Margin (median %)	4.18	4.09	3.91	3.94	3.95
Yield on Earning Assets (median %)	6.02	5.79	5.53	5.65	5.95
Cost of Funding Earning Assets (median %)	1.98	1.82	1.65	1.68	1.93
Provisions to Avg. Assets (median %)	0.15	0.14	0.14	0.18	0.20
Noninterest Income to Avg. Assets (median %)	0.61	0.58	0.66	0.64	0.65
Overhead to Avg. Assets (median %)	2.94	2.92	2.90	2.93	2.91

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	72.4	71.8	69.5	70.9	66.7
Noncore Funding to Assets (median %)	19.0	18.9	16.8	18.2	16.4
Long-term Assets to Assets (median %, call filers)	15.2	15.4	16.7	15.1	19.1
Brokered Deposits (number of institutions)	34	33	30	36	30
Brokered Deposits to Assets (median % for those above)	4.5	4.8	5.1	4.1	2.8

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	72.4	71.5	81.0	74.3	84.3
Commercial Real Estate	318.0	330.8	303.1	323.9	289.5
Construction & Development	71.3	69.6	61.7	65.0	49.6
Multifamily Residential Real Estate	9.5	9.6	7.1	8.4	6.9
Nonresidential Real Estate	192.0	197.0	199.9	194.6	198.9
Residential Real Estate	241.8	242.9	248.1	247.1	244.1
Consumer	45.5	43.7	49.4	44.8	51.0
Agriculture	6.0	5.5	5.9	5.5	6.2

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Washington-Arlington-Alexandria, DC-VA-MD-WV	99	119,767	< \$250 million	71 (50.7%)
Richmond, VA	36	33,150	\$250 million to \$1 billion	52 (37.1%)
Virginia Beach-Norfolk-Newport News, VA-NC	32	14,965	\$1 billion to \$10 billion	10 (7.1%)
Roanoke, VA	17	4,585	> \$10 billion	7 (5%)
Kingsport-Bristol-Bristol, TN-VA	26	3,675		